Leveraged stocks to buy now

How commodity exchanges spread capitalism in Russia

June 8, 1992 Four Dollars

Forbes

How many Morrison Knudsen employees see their boss and his wife

The Imperial Agees

Forbes
JUNE 8, 1992 VOLUME 149 NUMBER 12

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THE FORBES INDEX

BY TIMOTHY DODMAN

The recovery is becoming more visible. The preliminary Forbes Index for April shows a 1% increase over March. If this gain holds, it will mark the largest month-to-month advance in the Index in 5½ years. Industrial output rose 0.5% in April, the third straight monthly increase. Rising auto production was largely responsible for the gain. Retail sales registered a 0.9% gain in April, which erased almost all of March's decline. And average weekly new unemployment claims in April were 412,000, the lowest number since July 1991.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.5%
Auto sales year to date vs 1991[1]	Ward's Automotive	1.2%
Index of leading indicators Mar vs Feb	Dept of Commerce	0.2%
Trade balance 12 months ended Feb 1992	Dept of Commerce	-$68 bil
All-commodity producer price index Apr vs Mar[2]	Dept of Labor	0.2%
GDP 1st quarter vs 4th—annualized growth	Dept of Commerce	2.0%
M2 (3-month change)—annualized growth[3]	Federal Reserve	3.6%

[1] U.S.-based manufacturers, excludes imports, as of 5/10/92. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, Forbes monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

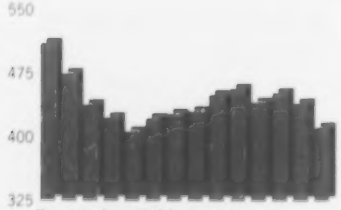
Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)

Industrial production index (1967=100) seasonally adjusted (Federal Reserve)

New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)

Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)



New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)

Retail sales ($billions), seasonally adjusted (Dept of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

M A M J J A S O N D J F M A

M A M J J A S O N D J F M A

M A M J J A S O N D J F M A

BY ERIC S. HARDY

Some chemical stocks—including Air Products & Chemicals, Union Carbide and Rohm & Haas—are showing nice gains this year. Others, including Lyondell Petrochemical and W.R. Grace, have languished. Dean Witter chemical analyst Harvey Stober explains the difference in performance by separating the industry into four sectors—petrochemical, fertilizer, cyclical and growth. Stocks in the first two categories, he explains, have yet to benefit from the economic recovery, while the cyclicals have done phenomenally well. Stober says the best buying opportunities lie in the growth sector. His favorites include Monsanto, which offers a 3.5% yield, and Imcera.

Despite a flat market so far in 1992, a flood of initial public offerings is pushing up the market's total capitalization. The value on the Barra All-US index is $3.9 trillion, up from $3.6 trillion in December 1991.

Special focus

Rising expectations: Over the past month, analysts in the Institutional Brokers Estimate System raised their 1992 earnings estimates on the companies below by at least 20%. Since early April, the 1992 earnings forecast for Ford Motor has tripled, while supermarket chain Penn Traffic's earnings estimate doubled.

Companies whose 1992 earnings estimates rose 20% or more in the past month.

Company	1992 Est EPS
Ford Motor	$ 1.19
Penn Traffic	0.52
Seagate Technology	0.63
Cullen Frost Bankers	1.10
Acclaim Entertainment	0.52
First Florida Banks	2.12
Presley Cos	1.13
BayBanks	1.45
Showboat	0.89
Measurex	0.59

Source: IBES, via Lotus One Source

The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	-0.3%	12.1%	-3.5%
S&P/Barra Growth index[1]	-0.4	13.3	-6.0
S&P/Barra Value index[2]	0.0	15.1	-0.8
Dow Jones industrials	0.3	16.4	-0.8
S&P 500	-0.4	11.0	-1.8
NYSE	-0.3	11.6	-1.8
Nasdaq	-0.4	19.7	-10.6
Amex	0.3	9.4	-6.5
EAFE[3]	5.2	-4.9	-23.7
CRB index[4,5]	2.9	-2.1	-22.6
Gold[5]	0.2	-5.2	-32.8
Yen[5]	-2.1	-5.2	-20.5
Oil[5]	-1.4	-1.7	-50.1

The best and worst performing stocks[6]

Best	Price	2-week change	1992 EPS[7]	Worst	Price	2-week change	1992 EPS[7]
Midlantic	12	52%	$-2.20	Biomatrix	7¼	-38%	$-0.50
Pinelands	17 ¾	46	-0.06	Medimmune	18½	-34	0.04
Western Capital Invest	13 ¾	43	NA	Sharro	25⅛	-33	2.08
International Murex Tech	14 ⅛	31	NA	Immunomedics	7¼	-28	NA
Transco Energy	14	30	0.95	Curative Technologies	9½	-25	NA

The best and worst performing industry factors[8,9]

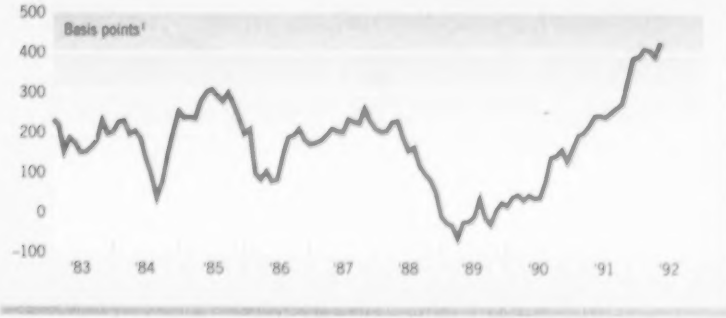
Best	2-week change	Since 12/31/91	Worst	2-week change	Since 12/31/91
Precious metals	9.8%	-4.2%	Motor vehicles	-6.2%	37.0%
Photographic, optical	4.8	-23.4	Pollution control	-5.0	-11.4
Thrifts	4.8	-2.1	Real estate	-4.5	-8.7
Life insurance	4.3	-10.4	Containers	-4.2	10.4
Gas utilities	4.3	-4.0	Aluminum	-2.8	-0.2

Note: Data for period ending 5/14/92. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

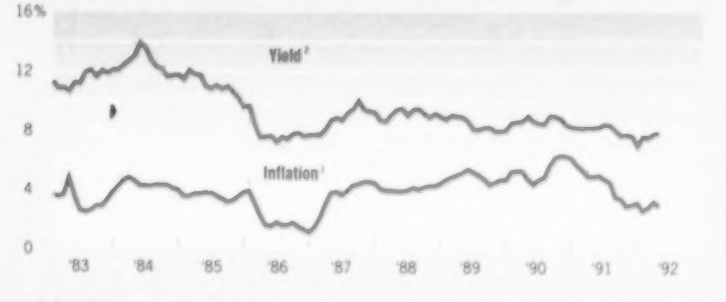
BY ERIC S. HARDY

Yield curve

30-year rate minus 1-year rate



Yield vs. inflation



Spread over Treasurys

Security	Basis points[1]
AA corporates	59
AAA industrials	57
Ginnie Maes	77
Junk corporates[4]	500
Municipals[5]	-199

Total returns

Security	1 year[6]	3 years[6,7]
AAA corporates	11.5%	11.6%
Ginnie Maes	11.7	13.2
Junk corporates[4]	26.1	14.7
Municipals[5]	9.5	9.4
Treasury bonds	10.5	11.1

Note: Except where footnoted, all information provided by Barra, Inc., Berkeley, Calif. [1]A basis point is equal to one-hundredth of a percentage point. [2]Yield on ten-year Treasurys. [3]The trailing 12-month increase in the Consumer Price Index. [4]Source: First Boston. [5]Source: Lehman Brothers. [6]Data through 4/30/92. [7]Annualized.

Fixed income investors who have been shunning U.S. Treasury securities because of their low yields should take another look. The alternatives are not as attractive as they once were. Or, to put it another way, yield spreads have been narrowing.

The phenomenon is quite visible in the tax-exempt sector. Municipals still offer better aftertax returns than Treasurys. But the muni advantage isn't all that significant. For example, top-quality general obligation debt maturing in one year pays 3.3%. A one-year Treasury, in contrast, pays 2.9% aftertax for someone in the 31% federal tax bracket. That leaves a 40-basis-point advantage to the muni investor.

Keep in mind that Treasurys are subject only to federal income taxes. Diversified municipal bond funds, because their portfolios will likely own bonds outside the investor's home state, are usually subject to state income tax, narrowing the muni's aftertax yield advantage. Single-state portfolios get around this problem, but with some increment of risk. A New Yorker putting all his money in New York munis is at risk that the state's credit rating will fall and take prices down with it.

Now look at another bond sector, far riskier than municipals: junk bonds. These have outperformed all other sectors over the past year. As a result, junk bonds now trade much closer to their par values, and yields are lower. Today, for example, a high-grade junk issue like the Safeway 9⅞s of 2007 trades roughly at par, says Kemper Securities' Dean Graves. The average junk bond has a yield spread over a comparable Treasury of 5 percentage points. Two years ago that spread was more like 7.5 percentage points.

The real question mark in any long-term fixed income investment is future inflation. On this score, Boston Co. economist Allen Sinai is bullish. He says small wage increases will serve as an "anchor" for low inflation. A 3% inflation rate would give investors nearly a 5% real return in long Treasury securities, he says.